

**DEPARTMENT OF INSURANCE****NOTICE**

**Date:** March 16, 2018

**To:** All Property and Casualty Insurers Subject to Proposition 103 and Other Interested Persons

**Subject:** Federal Corporate Income Tax Changes and Excessive Insurance Rates under Proposition 103

The recently enacted federal "Tax Cuts and Jobs Act" became effective on January 1, 2018 and reduced the federal corporate income tax rate from 35 to 21 percent. The federal corporate income tax rate directly impacts the calculation of property and casualty insurance rates in California under the Proposition 103 rate regulations including the Federal Income Tax Factors Regulation (10 CCR § 2644.18) and Projected Yield Regulation (10 CCR § 2644.20). These regulations have been amended to reflect the new 21% rate, effective February 23, 2018. This change effectively lowers the maximum allowable rates for all property and casualty insurance lines subject to Proposition 103.

Insurers that write Proposition 103 lines in California are hereby reminded that under California Insurance Code section 1861.05 excessive property and casualty insurance rates shall not remain in effect. That section provides in part:

No rate shall remain in effect which is excessive, inadequate, unfairly discriminatory or otherwise in violation of this chapter.

Accordingly, any insurer with excessive rates, whether in whole or in part due to the above mentioned change in the rate regulations based on changes to the federal income tax rates or due to any other reason, must file a rate change application with the Department to seek an appropriate insurance rate reduction.